

Benefits Board – 401k/Retirement Frequently Asked Questions

1. What is the role of the AFLC business office, the Empower Representatives, and the Benefits board when it comes to my retirement planning?
* Answer: The Benefits Board role is to provide and oversee benefits for AFLC churches and ministries to utilize for their employees. The AFLC Business Office performs this work on behalf of the Benefits Board by maintaining the plans and performing the routine processes with the churches to move money into the employees' 401ks as well as maintaining the insurance policies. Empower Retirement houses the 401k and their role is to work with the Business Office in the routine processing as well as offer their services to the participants when it comes to moving money into different accounts, making withdrawals, etc.
2. Does this mean I still need a professional financial advisor and a professional tax consultant to help me understand and maximize my pastoral benefits?
* Answer: The long answer is that the AFLC cannot provide financial or legal tax advice to any of the Pastors or churches, even when it comes to benefits. So each participant or church should evaluate their need for professional advice when it comes to taxes, finance, etc. The AFLC Business Office may provide general information to help the churches or participants, but cannot legally give out tax advice.
3. Do all Financial advisors and Tax professionals understand the complexities of Clergy planning and taxes?
* Answer: Well many likely have a basic understanding of clergy taxes, there is no way we can guarantee that all financial advisors or tax professionals do. Asking a financial advisor or tax professional if they have experience in clergy tax is a great way to understand their level of knowledge. Many financial advisors are not aware of the housing allowance tax benefit. Be very careful if you are encouraged to do a rollover to an IRA. You cannot take tax free housing distributions from an IRA. There are cases where it still makes sense to do partial rollovers from the plan, but it is vital that the financial professional understands the housing allowance rules and takes the tax implications into account.
4. What does it mean for me, as a pastor, that our AFLC 401K plan has a Housing Allowance clause?
* Answer: It means that if the money in your 401k was earned with respect to the services that were considered to be in the exercise of the ministry as a Minister of the Gospel (as outlined in Section 107 of the Internal Revenue Code), that you can disburse money as housing allowance which means no income tax withholding is required. You can disburse money as housing allowance once a pastor has reached retirement. This means a retired pastor can receive a set amount of money from their 401k tax-free as long as it follow the appropriate housing allowance designation rules with the IRS.
5. As a pastor, my goal is to be preaching and sharing the Gospels as long as possible. How does this impact my retirement status, or the ability for me to utilize the 401K plan's Pastor Housing Expenses? What is considered retired?
* Answer: That is up to you and your tax advisor. But you cannot be actively

working/contributing to the 401k and be withdrawing as retired. You need a retirement date. If you are paid with a W2, you probably are not able to claim you are retired to the IRS. While you are not able to withdraw housing distributions until you are retired, you can still get the housing allowance tax benefit through your income as you have been throughout your working years. If you are only working part time and need to take withdrawals, you can take taxable withdrawals from the 401k and used your earned income to get the tax benefits of the housing allowance.

6. What do I do once I retire? Or, I am retiring, what are my options?

* Answer: You can withdraw money from your 401k either as tax-free housing allowance distribution or taxable distributions. Once you reach the RMD (Required Minimum Distribution) age, you have to take out a minimum amount of your 401k. That amount is calculated and changes based on your age and the amount in your 401k.

7. Should this 'retirement' definition deter me from investing in the AFLC 401K plan?

* Answer: This question is complex and best answered by a legal tax or financial advisor who is aware of your financial situation and needs for retirement.

8. How does this change if I'm called for part time for interim pastor?

* Answer: It is up to the pastor to decide if they are retired or not when doing interim work and they should seek tax professional advice when it comes to determining their retirement status while earning supplemental income.

9. Is the goal of the 401K program to take the whole of the account in one lump sum in retirement or more for a yearly or monthly distribution? Is there any tax concerns to be aware of if a one-time payment is requested?

* Answer: The main goal of the 401k is to set-aside money for retirement. It is up to the participant how they want to disburse that money once they are retired. They should certainly take into consideration their financial situation when they retire. Distributions from the 401k upon retirement are taxable unless they were put in as after-tax contributions (Roth) or if they are withdrawn as housing allowance (applicable only to retired pastors). Depending on the financial situation, other tax concerns may arise out of withdrawing as lump sum.